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Consumer Alert: Retained Asset Accounts and Life Insurance **What Consumers Need to Know About Life Insurance Benefit Payment Options**

The death of a spouse, parent, child, partner or other loved one is a difficult time. In addition to the emotional stress present during the weeks, months or years following a death, financial burdens may also arise. Life insurance is intended to assist with these financial burdens. While life insurance policies provide for a single payment of the death benefit, policies may also offer other payout options that are intended to fit your needs and those of your family.

Nevada Division of Insurance Commissioner Brett J. Barratt suggests you consider the following information if a life insurance company offers you a Retained Asset Account as an option to a single payment.

What is a Retained Asset Account?

A Retained Asset Account (RAA) is a temporary repository of the death benefit proceeds. The RAA's function is to give you (the beneficiary) the time you need to consider all of the financial options available. The payment of the total proceeds will be accomplished by delivery of a "checkbook." While the documents you receive might look like a checkbook, it might actually be drafts which are similar to checks, but different in some ways.

For example, if the insurance company issues the checks directly, then they are called drafts. Drafts operate similar to checks, although they may not credit to your bank account as quickly and they may not be accepted by certain retailers. Insurance company drafts from an RAA are covered by the Nevada Life and Health Insurance Guarantee Association (NLHIGA) for up to \$300,000. If the insurance company establishes the RAA through an affiliated bank, then the RAA issues checks. Most accounts in affiliated banks are insured by the FDIC up to \$250,000.

How is an RAA Used?

The use of an RAA can provide you the flexibility to make the right decision regarding your long-term financial needs while earning interest on the life insurance proceeds. You can choose to write one check or draft to access the entire proceeds at any time. However, you may be able to earn a higher rate of interest on the life insurance proceeds if you select a different payout option.

RAAs are generally provided as an option to the beneficiary. However for some group policies, the employer might have agreed that a RAA is the only way life insurance claims are settled. If that is true in your case, you may write a check or draft to transfer the death benefit proceeds as you see fit.

Key Questions to Ask and Issues to Understand

If you are considering the option of an RAA or are provided one to settle a death claim, here are some important issues to consider:

- What interest rate will be paid on the proceeds? How will the interest rate be determined, and how will the interest amount be credited to the account?
- Will the proceeds be held in a bank, which would make the proceeds FDIC insured up to the limit permitted by law?
- Will the proceeds be held by the insurer, which would make the proceeds subject to coverage by a state guaranty fund up to the limits permitted by law, should the insurer fail?
- Will the proceeds be held in a bank checking or an insurer draft account? What banking services, if any, will be provided?
- What services will be provided at no charge and what services will involve a fee?

Other Payout Options

It's important to remember that regarding life insurance options, one size does not fit all. This is why various payout options are offered. If you choose to initially receive life insurance proceeds through an RAA, other payment options should be preserved until the entire balance is withdrawn or the balance drops below a certain dollar amount. Other payout options may include one or more of the following:

- A Single Payment, also known as a "Lump Sum" Payout: Through this option, you will receive the entire proceeds in one payment. Writing a single check or draft for the entire death benefit amount under the RAA option, which is always permitted, is the same as the Single Payment option.
- Installment Payout for Fixed Amount or Period: Through this option, you may choose to receive either: a fixed monthly, quarterly or annual payment amount selected by you until the proceeds

are depleted; or a fixed monthly, quarterly or annual payment amount determined by your insurer for a fixed period of time that you select.

- Installment Payout for Lifetime: Through this option, you will receive fixed monthly, quarterly or annual payments determined by your insurer for the remainder of your life.

- Installment Payout for Certain and Life: This is a combination of the above two. Through this option, you will receive fixed monthly, quarterly or annual payments determined by your insurer for the remainder of your life; however if you should die before some certain period of time has passed (for example, 10 years), your beneficiary will receive payments for the remaining certain period.

- Interest Only Payout: Through this option, proceeds are left with the insurance company and you will receive interest payments which the insurer will pay you on a monthly (quarterly, annual) basis. If you choose this option, be sure you understand if the interest rate is fixed or variable and if there are any guaranteed minimums or maximum limits. Proceeds are passed on to your beneficiaries upon your death.

Other Tips

- If you are the beneficiary of a life insurance policy, contact the insurance company in a timely manner after the death of the insured. Be prepared to provide a death certificate to initiate the claims process.

- Always obtain the necessary contact information for your insurance company, such as a phone number and address, where you can obtain additional information and answers to your questions.

- Make sure you read and understand all information the insurance company sends to you.

- Assess your financial needs and tax status.

- Take your time in determining the right payout option for you. You should not be pressured to act quickly.

- If you need help, consult a trusted financial or tax advisor.

More Information

If you have questions about RAA, other options to receive life insurance proceeds, or need assistance with information sent to you by the insurance company, please contact the Nevada Division of Insurance at <http://doi.nv.gov>

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